



Financing Energy Performance Contracts

What is being financed?

- Hard Costs

Equipment (boilers, lighting etc)

- Soft Costs

Installation, contractor fees, audit fees



Evaluating the Project

- Essential use of the equipment
- Projected savings to exceed debt service
- Experience and Financial Strength of ESCO
- ESCO Guaranty for term of project
- Maintaining the Project
- Savings Insurance
- Performance Bond During Construction



Financing Options

- Loan
- Bond
- Lease Purchase Agreement



Financing Options

- Bond
- Voter Approval
- Significant Disclosure Documents
- Legal Expenses
- May have lowest stated interest rate
- Higher fees may make overall costs higher
- Incorporate EPC into existing bond deal
- Bigger transactions



Financing Options

- Lease
- Quick Turnaround
- No voter referendum
- Minimal paperwork
- Low Expenses
- Higher interest rate
- Can have lower NET cost than bonds (because expenses are low)
- Private Placement



Lease Purchase Agreement

- Obligation between Lessee (municipality) and Lessor (investor)
- ESCO is NOT part of the Agreement
- Lease Payments are NOT dependent upon savings



Lease Purchase Financing

- Annual appropriations of lease payments
- Does not constitute long term debt
- Operating Expense
- Inexpensive
- Minimal paperwork
- Can be completed in short time frame (30-45 days)
- Credit approval



Lease Purchase Agreement

- Installment Purchase Contract
- Essential Use of the Equipment
- Lessor gets security interest in equipment
- Final term does not exceed 12-13 years
- Installation period (capitalized interest)
- Title remains with lessee
- Prepayable on any payment date (monthly, quarterly, annually)
- Prepayment Premium
- Lessee is outright owner at end of lease
- Validity opinion required
- Tax opinion (sometimes required)



Lease Purchase Agreement

- Failure of Lessee to make lease payments
- Lessor takes possession of equipment



Credit Approval Process

- 3 years financial statements
- Current budget
- Outstanding ratings
- Demographics
- Energy Services Agreement
- Quick turnaround